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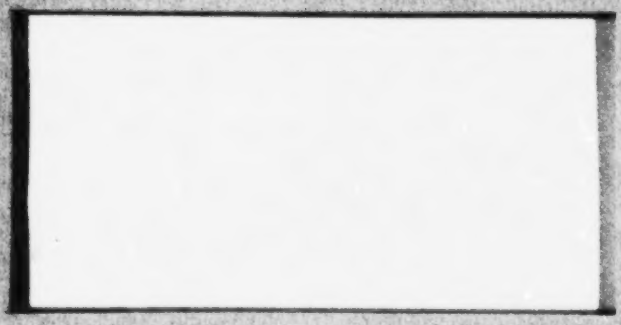

BRIEF TO
THE COMMISSION OF INQUIRY
ON UNEMPLOYMENT INSURANCE

THE NEED TO RENEW
CANADA'S COMMITMENT TO FULL EMPLOYMENT

January 1986

SOCIAL PLANNING COUNCIL OF METROPOLITAN TORONTO

A United Way Agency

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EXECUTIVE SUMMARY

Introduction

The only conclusion that can be reached from a review of recent federal labour market and employment policies is that high unemployment is public policy in Canada.

The 1985 Report of the Royal Commission on the Economic Union and Development Prospects for Canada ackowledges that high unemployment results in part from insufficient numbers of jobs, but the main thrust of its recommendations is to allow market forces to solve the problems of insufficient demand and too few jobs. It recommends that government play a more active role in labour market adjustment and that the unemployment insurance program be amended by reducing benefits and increasing eligibility requirements. Such a redution in the social safety net is part of a long-term strategy that would see the federal government abandon its commitment and responsibility for full employment and transfer the costs of unemployment to the unemployed themselves.

If full employment is to again be a reality in Canada all levels of government have to co-operate in the development of a co-ordinated economic and labour market strategy. The achievement of full employment will require a significant redirection of government thinking about the economy and employment.

How Serious is Unemployment?

Canadian unemployment reached post-Depression record levels in 1982, and it

has remained high ever since. It remained above 10 per cent through the end of 1985.

The official unemployment rate published by Statistics Canada excludes 224.000 discouraged workers and the underemployment of 456,000 part-time workers who would prefer to work full-time. The real unemployment rate is 13.7 per cent for Canada, 10.3 per cent for Ontario and 8.8 per cent for the Toronto Census Metropolitan Area.

What Has Happened to Canada's Full Employment Policy?

In 1945 Canada committed itself to full employment. Unemployment rates generally remained below four per cent up to the 1970's. Canadian governments radically altered their views on the priority of full employment around 1975.

One result of this change was that the definition of full employment was altered in such a way that the actual rate of unemployment came to be defined as the full employment rate. The Report of the Royal Commission on the Economic Union and Development Prospects for Canada cites structural problems that make it difficult to reduce unemployment below the 6.5 to 8.0 per cent range, two-thirds of 1985 unemployment.

Full employment should be defined as a situation where there is at least one job vacancy for every unemployed person.

The Causes of Unemployment

There is growing evidence that unemployment in Canada is very closely tied both to Canada's profound economic difficulties and to its lack of commitment to reducing unemployment. Historically, Canada has had one of the highest rates of growth when compared to its major trading partners, but also the highest rate of unemployment amongst this group.

Amongst the group of seven largest western industrial nations, Canada's rate of growth in real gross domestic product fell far behind that of Japan, the United States, the United Kingdom and France in the early 1980s. Canada's average rate of unemployment in this period was exceeded only by the U.K. The most serious problems in the Canadian economy are related to weaknesses in the manufacturing, primary and construction industries.

Recent federal policies are influenced by supply side and monetarist economic theories that say that the cause of both deficiencies in investment and of high inflation are related to excessive government spending, over-burdened taxpayers and a large public debt. Severe spending restraint is part of government policy. Another result is a reduction in government commitment to public job creation to provide jobs for hard to employ groups.

The pursuit of spending restraint has been accompanied by revenue restraint, both largely at the expense of poor and low income groups. The federal government has incurred increasingly large deficits, in part as a result of the declining revenues and increasing expenditures associated with the 1981 - 1983 recession and poor economic performance, but in larger part as a result of revenue losses resulting from the proliferation of

preferential tax measures designed to stimulate saving and investment on the part of rich and affluent Canadians. The immediate limits of public spending in Canada are the willingness of governments to implement tax reform so that revenues generated through taxation are sufficient and equitable.

Unemployment and Hardship

The notion that the social safety net and the increasing participation of women and wives and the advent of two earner families reduces the need for full employment policies is a myth. Unemployment imposes immense hardship on the unemployed.

Research in other countries has shown that unemployment is related to increases in the numbers of such phenomena as suicides, mental hospital admissions, crimes, death from cardiovascular diseases and cirrhosis of the liver. Unemployment is still the major cause of poverty, and the large increase in unemployment since 1981 has caused a considerable increase in the incidence of poverty amongst families with children. The number of children living in families with incomes below the poverty line increased by 50 per cent between 1981 and 1984. At the depth of the recession in 1982 employable persons who were either not eligible for unemployment insurance or whose benefits had expired made up half the general welfare assistance caseload in Metropolitan Toronto.

The Report of the Royal Commission on the Economic Union and Development Prospects for Canada

The Report of the Royal Commission is the latest in a series of reports proposing major changes in Canada's approach to labour market policy and in its unemployment insurance program. It proposes a major package of changes that would see reductions in the eligibility for unemployment insurance and decreases in the length and amount of benefits, greater integration of labour market policy with the unemployment insurance program, the establishment of new transition programs for the long-term unemployed and a new universal income supplement program that would supplement the incomes of unemployment insurance recipients, as well as the working poor in general.

The argument for cutting back the unemployment insurance program is premised on the belief that the ease with which the unemployed collect benefits, the length of time for which they receive benefits and the generosity of benefits, leads to an increased incidence in unemployment and inefficient employment search procedures on the part of the unemployed. These claims are exaggerated. They fail to consider alternative evidence. Such claims also ignore the fact that previous cutbacks in the unemployment insurance program, including a reduction in benefit levels, between 1976 and 1979 largely invalidate the conclusions of studies using data generated prior to 1979. The recommendations of the Royal Commission constitute a rejection of the principles which have guided the development of Canadian social policy since World War II and a return to those which held sway in the nineteenth century.

We do not believe that the Commissioners were sufficiently appreciative of the impact of the major cutbacks that occurred in the late 1970s. Those

cutbacks reduced 1984 benefits to 25 per cent less than they would have been in the absence of cutbacks, and the further cutbacks proposed would reduce the magnitude of the unemployment insurance program to less than it was prior to the 1971 reforms.

Conclusions

We cannot accept proposals for further reducing the benefits under the unemployment insurance program.

There are problems with the unemployment insurance program, but these have more to do with the discretionary nature of its administration and with inequities in the financing of the unemployment insurance fund than with the generosity of the current program.

With respect to the overall thrust of the recommendations of the Royal Commission to integrate benefits for the dependents of unemployment insurance premiums with a universal income support program, there is considerable merit in returning to the income security proposals contained in the reconstruction plans for the period immediately following World War II. We might also support the larger proposals for income security reform if they provided more adequate guarantee levels approximating Statistics Canada's low-income cut-off (poverty) line.

We support the proposal to introduce an element of insurance rating in assessing employers for unemployment insurance premiums.

There is little doubt about the need for a revised system of skill-training

in Canada, but the problem of skill-training has been overstated. There is a need to place emphasis on technical and technological training to meet future skill requirements, but this should not be done totally at the expense of other programs, including basic upgrading of workers with low levels of educational attainment. A grant/levy system is a necessary response to the problem of skill-training in Canada. This program should be linked to the unemployment insurance program or to a severance pay plan so that layoff time training could be an integral component of a revised skill-training program. Such a program would also have specific targets or goals for training women, minorities and the disabled in occupations from which they have been historically excluded.

We have concluded that the recommendations of the Royal Commission inadequately consider the need for greater intervention in private sector work places to deal with labour market inequality, especially with respect to women, natives and visible racial minorities.

The current labour market strategy is also deficient in its approach to the problem of layoffs and plant closures. The high social costs of plant closures suggests the need for some form of public audit of the decision of employers to lay off workers. Many layoffs result from inadequate labour force planning and utilization practices.

We conclude that the federal government should absorb the burden of the unemployment insurance benefits program when federal fiscal and monetary policies are the cause of high unemployment levels. We agree that the unemployment insurance program should be integrated with job creation skill-training programs.

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I. INTRODUCTION

1.1 High unemployment in Canada is public policy. This is the only conclusion that can be reached from a review of federal labour market and employment policies. In 1981 two reports of the Canada Employment and Immigration Commission (CEIC), the Task Force Report on the Labour Market and the Task Force Report on Unemployment Insurance, asserted that the causes of high unemployment were almost entirely related to problems of labour: the motivation of women and young people; rapid growth in the numbers in the labour force; and lack of job skills amongst the unemployed. Following from this point of view, the solution to high unemployment in Canada is simple: to improve labour market adjustment programs, such as skill training programs; and to increase the motivation of the unemployed to take work by reducing their eligibility for unemployment insurance, as well as the benefits they receive for being unemployed.

1.2 The Social Planning Council of Metropolitan Toronto prepared the policy statement, A Job for Everyone: A Response to "Un"Employment Policies in Canada, in response to these two government reports. The precipitous rise in unemployment rates and the increasing hardship falling on many Canadians caused the government of the day to delay implementing measures that would further restrict eligibility for and reduce benefits of unemployment insurance.

1.3 The 1985 Report of the Royal Commission on the Economic Union and Development Prospects for Canada recognizes that the problem of

high unemployment is in part a problem of insufficient numbers of jobs. The main thrust of its recommendations, however, is in the direction of allowing competitive economic forces to solve the problems of insufficient demand and too few jobs. Its main recommendations for government are similar to the earlier government reports: increased activity in assisting labour market adjustment and reduced benefits and higher eligibility requirements for unemployment insurance.

1.4 Unemployment hardship is a serious problem. The 1984 Statistics Canada annual survey of the incomes of Canadians reported an increase in the incidence of poverty for the third year in a row. Over 90 per cent of the increase in the number of persons living in households with incomes below the poverty line was amongst families with children, and the primary cause of this increased incidence of poverty is higher unemployment. There will not be an economic recovery of the kind that will provide for full employment in the 1980s unless there is a significant redirection of federal economic and employment policy. The notion that government can do little and should be less involved in the market places only serves to sustain the hardship faced by the unemployed.

1.5 The Canadian economy needs positive intervention. The manufacturing sector is in decline from an already weak position. Plant closures and layoffs continue at a very high rate. The public sector is no longer a source of large numbers of new jobs as it was in the 1960s and early 1970s.

1.6 Labour market policy changes are required, and some of these changes are required to be implemented within the context of the unemployment insurance program. Reforms to the skill training system in Canada are necessary. The National Training Act, 1982, will not solve the training problem. We need a comprehensive skill training program based on a grant/levy system so that effective on-the-job training is guaranteed. We need labour market policy changes that will eliminate discriminatory practices and unequal pay for work of equal value. And we need comprehensive legislation to prevent unnecessary layoffs and plant closures and to compensate adequately those workers who do lose their jobs as a result of layoffs.

1.7 The Royal Commission on the Economic Union and Development Prospects for Canada proposes that the protection accorded the unemployed by the Unemployment Insurance Program be further reduced. This reduction in the social safety net is part of a long term strategy that would see the federal government abandon its commitment and responsibility for full employment and transfer the costs of unemployment to the unemployed themselves. This is nothing short of punitive and is entirely inappropriate, especially at a time of continued high levels of unemployment. Although the Royal Commission joins its recommendation for reduced unemployment insurance benefits with a proposal for a Universal Income Security Program (U.I.S.P.) with a recommended low tax-back rate, the benefit levels for this program would still result in benefits lower than the poverty line. While this proposal would provide special consideration for dependents of

the unemployed for the first time since the federal government discontinued special benefits in 1976, the net result of this proposal would be to reduce considerably total income for unemployed single persons with no dependents. One only has to read the reports of increased homelessness and the problems of finding jobs on the part of youth or older workers to recognize what a reprehensible change this would be.

1.8 Many of the policy changes that are needed are the responsibility of the federal government. But the Ontario government and the Municipality of Metropolitan Toronto should also concentrate their efforts on developing alternative strategies to achieve full employment. The province of Ontario has been particularly reluctant to strengthen its legislation pertaining to layoffs and plant closures. We are hopeful that the Ontario government will soon take action in this and related areas. Local and regional levels of government need to develop strategies for generating new and retaining old jobs. Some part of a program in this area are elaborated on in the Social Planning Council's report, The Deindustrialization of Metropolitan Toronto. Ultimately, if full employment is to be a reality in Canada all levels of government have to co-operate in the development of a co-ordinated economic and labour market strategy.

1.9 We believe that full employment is not just an idealistic vision that has little reality in today's difficult times. The achievement of full employment will require a significant redirection of federal, provincial and municipal thinking about the economy and

what will make it work. We also believe that there are constructive and practical solutions to the problem, and we have attempted to outline some of these herein.

II. HOW SERIOUS IS UNEMPLOYMENT?

2.1 Unemployment in Canada reached post-Depression record levels in 1982, and it has remained high ever since. The seasonally adjusted official rate of unemployment in Canada reached 12.9 per cent in December 1982, and it averaged 11.3 per cent for 1984. It was still 10.1 per cent in September 1985, when there were 1.3 million unemployed persons.[1] A similar high rate of unemployment has been experienced in Ontario, where 386,000 people, 8.1 per cent of the labour force, were officially estimated to be looking for work. In Metropolitan Toronto (CMA) the official rate of unemployment stood at 6.9 per cent with 124,000 people unemployed in September 1985. Although Metropolitan Toronto had a relatively lower rate of unemployment than most provinces, the actual number of unemployed people in Toronto was greater than all of the provinces except for Quebec, British Columbia and of course Ontario. Metropolitan Toronto has 9.7 per cent of all the official unemployment in Canada (Table 1).

2.2 These are the official figures published by Statistics Canada. They are not an accurate estimate on unemployment because they do not include large numbers of discouraged and underemployed workers. The official definition of unemployment used in the Labour Force Survey requires that a person be both out of work and actively seeking work to be counted as unemployed. This definition omits those people who, for a variety of reasons, have given up looking for work. Unofficial figures, published every March

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1. Statistics Canada, The Labour Force, Cat. 71-001, December 1982 and January and September 1985.

Table 1

OFFICIAL UNEMPLOYMENT IN CANADA,
PROVINCES AND METROPOLITAN TORONTO

September 1985

	Numbers (Actual)	Rates (Seasonally Adjusted)
Canada	1,282,000	10.1
Ontario	386,000	8.1
Quebec	368,000	11.6
British Columbia	185,000	13.0
Toronto C.M.A.	**124,000**	**6.9** (actual)
Alberta	115,000	9.2
Nova Scotia	53,000	13.6
Newfoundland	44,000	19.6
New Brunswick	41,000	13.5
Manitoba	40,000	7.6
Saskatchewan	37,000	7.6
Prince Edward Island	7,000	11.5

Source: Statistics Canada, The Labour Force, Cat. 71-001, September 1985.

by Statistics Canada, reveal the extent of this "discouraged worker effect". In March 1985, 224,000 people stated that they had not looked for work, but were ready and available for work. This represented 14.5 per cent of official unemployment for that month.

2.3 Because of the considerable slack in the economy there is also

some underemployment in the form of people working part-time because part-time work is all that they can find. In September of 1985 Statistics Canada estimated that there were 456,000 people in Canada working part-time because they could not find full time work. Added to the official estimate, along with the discouraged workers, and the real level of unemployment exceeds 1.7 million. The real unemployment rate in Canada for September 1985 was 13.7 per cent.[2]

2.4 Ontario's real level of unemployment is 490,000 and the real unemployment rate in Ontario 10.3 per cent. When discouraged workers and underemployed workers are added to the numbers of the official jobless in Toronto the real level of unemployment is 158,000 people and the real rate of unemployment becomes 8.8 per cent of the labour force (Table 2). The differential between "official" and "real" unemployment is 35 per cent for Canada and 27 per cent for Ontario.

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2. The ratio of discouraged workers to total unemployment found in the March survey has been applied to September data.

Table 2

OFFICIAL AND REAL UNEMPLOYMENT IN CANADA,
ONTARIO, METROPOLITAN TORONTO

September 1985

	Canada	Ontario	Toronto CMA*
Official Unemployment	1,282,000	386,000	124,000
Official unemployment (rate unadjusted)	10.1	8.1	6.9
Discouraged Workers	224,000	38,000	63,000
Underemployed Workers* (One-half of persons working part-time because they can't find full-time work)	228,000	66,000	21,000
Real Unemployment Rate	13.7	10.3	8.8

Source: Statistics Canada, The Labour Force, Cat. 71-001, March and September 1985, and Social Planning Council calculations.

*Rates of discouragement and underemployment for Ontario have been applied to Toronto CMA unemployment, as these data are not published for sub-provincial regions.

III. WHATEVER HAPPENED TO FULL EMPLOYMENT?

3.1 In 1945 Canada, along with such countries as the U.K., Australia and the U.S.A., committed itself to the achievement of "full employment". This commitment was never fully realized, but in the decades of the 50s and the 60s Canada did experience relatively low levels of unemployment and rising levels of income and productivity. The 1970s saw unemployment jump from averages of 3 to 4 per cent in the 1960s to rates averaging 6 to 7 per cent in the early part of the decade and rates averaging 7 to 8 per cent in the latter part of the decade. Unemployment has been at double digit levels since 1981. These same high figures in the decades of the 50s and 60s automatically triggered a variety of government responses to reduce unemployment. Canadian governments radically altered their priorities around 1975. They began to tolerate higher levels of joblessness.

3.2 Full employment has never been precisely defined. Full employment has always meant a certain acceptable level of unemployment. In the 1960s the Economic Council of Canada considered 4 per cent unemployment to be the full employment level in Canada, and the measured rate of unemployment hovered just over this level. This was often referred to as the "natural", or frictional rate of unemployment.[3] The 1970s saw measured unemployment creep upwards as levels of unemployment were particularly severe for the most recent entrants to the labour market: women and young people.

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3. Frictional rate of unemployment refers to the measured unemployment that results from people moving from one job to another and into and out of the labour market.

During this period, the federal government abandoned whatever nominal commitment it had to the goal of full employment. Rather than confront the economic problems that made it difficult to employ everyone needing work, policy makers have concentrated their efforts on rationalizing how the publicly tolerable level of unemployment could be adjusted upwards. Any reference to the goal of full employment has now been abandoned. In the mid-1970s the Economic Council of Canada started using the term "equilibrium" rate of unemployment in reference to the idea that there is a level of unemployment below which any policy initiatives designed to stimulate employment would be too inflationary and that the benefit of expanding jobs would be undermined by the cost of greater inflation. In 1979 when unemployment in Canada was averaging 7.5 per cent, the Economic Council of Canada estimated that the full employment equilibrium rate of unemployment was 6 per cent.[4] The Report of the Royal Commission on the Economic Union and Development Prospects for Canada cites "structural problems" that make it difficult to reduce unemployment below the 6.5 to 8.0 per cent range.[5] The Royal Commission defines this level of unemployment as the "non accelerating inflation rate of unemployment", or NAIRU. While they note that many unemployed suffer hardship and are unemployed frequently or for long periods of time and that there are perhaps hundreds of thousands of discouraged workers, they nevertheless conclude that

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4. Economic Council of Canada, Two Cheers for the Eighties (Ottawa: 1979), p.19.
5. Royal Commission on the Economic Union and Development Prospects for Canada, Report (Ottawa: 1985), Vol. 2, pp.282, 283.

government should be concerned only with "cyclical" unemployment, or about one-third of the currently unemployed. It is concluded that the NAIRU is two-thirds of unemployment in the early 1980s. Full employment in Canada has effectively been defined as the existing unemployment rate, whatever that may be.

3.3 The Social Planning Council of Metropolitan Toronto is appalled by efforts to re-define full employment targets upwards simply because employment and economic policies have failed to produce a sufficient number of jobs for all Canadians needing and wanting them. The federal government should listen to the Parliamentary Task Force on Employment Opportunities for the Eighties:

> "Canada needs an industrial strategy that will put people to work and a government determined to achieve this goal must set goals for lowering unemployment. This strategy should aim to achieve full employment, which the Task Force considers to be four per cent unemployment. Government policy should be designed to meet this goal as soon as possible."[6]

But even the four per cent level of unemployment, admittedly a vast improvement over the present levels of 10 per cent and over, is still arbitrary. The achievement of this goal would still leave almost half a million people officially unemployed. Full employment should be defined as a situation where there are more jobs than unemployed persons.

3.4 There are no reliable data on job vacancies in Canada at the present time. In 1978 the Social Planning Council of Metro-

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6. Ibid, p.61.

politan Toronto, using data from Statistics Canada's monthly Job Vacancy Survey, recorded a ratio of 23.6 people unemployed to every job vacancy in Ontario.[7] Subsequently, and possibly because it was embarrassed by what it revealed, the federal government cancelled the Job Vacancy Survey even though it was the only source for estimating the number of available jobs in Canada.

3.5 The federal government has given up on any significant effort to reduce unemployment. High rates of unemployment are expected to continue well into the late 1980s. This is simply a camouflage for federal unwillingness to implement the kind of economic and labour market policy alternatives required to prevent the loss of jobs and to expand new job opportunities.

3.6 The abandonment of any commitment to a substantial reduction in unemployment, let alone a commitment to full employment, has been demonstrated in federal Budgets in the 1980s. From 1980 to 1983 the primary objective of Federal budgets was the reduction of inflationary pressures in the economy. Extremely restrictive monetary policies in the late seventies as well as during this period, resulted in historically high real interest rates and subsequently the deepest recession and highest unemployment levels since the 1930s. The recession reduced inflation, which approximated four per cent in each of 1984 and 1985. Another

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7. Social Planning Council of Metropolitan Toronto, The Problem is Jobs Not People (1978), p.7.

result of the recession from which Canada has still not fully recovered is reduced government revenues, and the combination of lower revenues and increased expenditures for such things as unemployment insurance benefits, has been higher than normal deficits.[8] Reducing these deficits became the primary focus of federal fiscal policy in 1984 and 1985. Federal policy makers believe that only after the deficit is "brought under control" will the confidence of investors grow. It is believed that this will automatically lead to greater investment, increased productivity and a reduction in unemployment.

3.7 This federal strategy for economic recovery is cynical and has many weaknesses. It is particularly cynical in its approach to reducing unemployment. The seasonally adjusted unemployment rate for the first ten months of 1985 averaged 10.7 per cent, down slightly from the 11.3 per cent experienced in 1984. In May 1985, the Minister of Finance projected that the unemployment rate would likely approximate 10.3 per cent for 1986 and 8.5 per cent for the three years 1987 - 1990.[9] An unfavourable international economic environment, which the Minister of Finance defines as one in which real interest rates would approximate six per cent, only slightly below 1985 levels, would see the unemployment rate of 10 per cent continue until at least 1990.[10]

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8. The projected federal budgetary deficit for the fiscal year ending March 31, 1986, is 7.5 per cent of gross national products, and net cash requirements of the federal government are 6.2 per cent of GNP. Cf. Canada, Department of Finance, The Fiscal Plan (Ottawa: May 1985), Table 4.2.
9. Canada, Department of Finance, Canada's Economic Prospects, 1985 - 1990: The Challenge of Economic Renewal (Ottawa: May 1985), chart 3.
10. Ibid, pp.22, 23.

3.8 Department of Finance projections of unemployment rates have been overly optimistic throughout the 1980s. The prospect of unemployment decreasing to less than double digit levels grows more and more distant. In November 1981 the Department of Finance projected that the unemployment rate would average 8.0 per cent for the 1984 - 1986 period.[11] Instead, the average for this period will likely approximate 10.8 per cent.

3.9 In September 1985 the Royal Commission on the Economic Union and Development Prospects for Canada recommended that,[12]

> Under present circumstances of high unemployment, a shift to a less expansionary fiscal stance, so as to reduce the deficit, should be more than matched by a temporary shift to a less restrictive monetary stance. A moderate increase in the projected growth of demand, which might significantly reduce unemployment and strengthen investment, should still be consistent with a further reduction in inflation.

We believe that a commitment to even this moderate course, which is premised on the belief that current and projected rates of unemployment are unacceptably high, is lacking.

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11. Canada, Department of Finance, The Current Economic Situation and Prospects for the Canadian Economy in the Short and Medium Term (Ottawa: November 1981).
12. Op.cit., p.389.

IV. UNEMPLOYMENT AND HARDSHIP

4.1 Research in other countries has shown that unemployment is related to a rise in the numbers of recorded suicides, mental hospital admissions, crimes, cardiovascular diseases, and cirrhosis of the liver.[13] Studies of plant closing have found that unemployment is linked to a number of psychological and physiological problems.[14] Psychiatrists and psychological researchers have found that layoffs and unemployment are an important condition giving rise to increased anxiety, tension, pessimism, anger, depression and insomnia.[15] A report to the Medical Officer of Health from the Eastern Health Area of the Department of Health, Toronto identified unemployment and economic problems as a major threat to health in Toronto.[16] The Social Planning Council of Metropolitan Toronto has compiled an extensive bibliography on the social effects of unemployment [17]

4.2 As we noted in the Introduction, unemployment is a major cause of poverty. Our study, Poverty and the Labour Market, found that 92 per cent of non-poor family unit heads worked a full year while

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13. Brenner, H. "Estimating the Social Costs of National Economic Policy and Implications for Mental Health and Criminal Aggression" in Full Employment: Social Questions for Public Policy, Social Planning Council of Metropolitan Toronto, 1979.
14. S. Cobb and S. Kasl. Termination: The Consequences of Job Loss (Washington: GPO. U.S. National Institute for Occupational Safety and Health, 1977).
15. Saul Levine. The Social Effects of Youth Unemployment (Toronto: 1978), mimeo.
16. Department of Health, Toronto, Programme Priorities Eastern Health Area, May 1982.
17. Social Planning Council of Metropolitan Toronto, "The Social Impacts of Layoffs", Working Papers for Full Employment #3 (1980).

only 44.3 per cent of poor family unit heads worked a full year. The proportion of poor family units that had at least one person in the labour force and some unemployment was double that of non-poor family units with at least one person in the labour force and some unemployment. Our study found that length and frequency of unemployment were also factors influencing unemployment. The greater the length of unemployment, and the more frequently people experienced joblessness, the greater the likelihood they would be poor.[18]

4.3 The growth of unemployment related poverty in Metropolitan Toronto is highlighted by the growth in the numbers of people who turned to municipal General Welfare Assistance at the depth of the recession because they had become unemployed and have no other means of support. Employable recipients at the depth of the recession in 1982 made up almost half of the 42,419 municipal welfare recipients in Metro.[19] There is little doubt about the poverty of people on social assistance. The Social Planning Council of Metropolitan Toronto estimates that social assistance rates in Ontario are as much as 55 per cent below poverty levels.[20]

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18. Social Planning Council of Metropolitan Toronto, "Poverty and the Labour Market", Working Papers for Full Employment, #4, (1981), p.25.
19. Alden Baker. "19,866 workers on welfare: official", Globe & Mail (April 1982).
20. Social Planning Council of Metropolitan Toronto, "The Under-Funding of Social Assistance Programs in Ontario", Social Infopac, 3.4 (October 1984).

4.4 Unemployment may also be contributing to the build-up of social tensions, destructive behaviour, and racism in Metropolitan Toronto. A 1982 recent report on youth unemployment warns of the destructive potential of high unemployment for disadvantaged youth.[21] The report warns that unemployed young people in Metropolitan Toronto feel frustrated and angry about their rejection by society and that this could lead to the kind of violent social behaviour displayed recently by unemployed young people in Britain.

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21. Harriet Wollman. Youth: The Forgotten Generation (Toronto: Metropolitan Department of Planning, 1982).

V. THE CAUSES OF UNEMPLOYMENT

5.1 Despite federal efforts suggesting that it is not possible to reduce unemployment much below its present levels, there is growing evidence that unemployment in Canada is very closely tied both to Canada's profound economic difficulties and to its lack of commitment to reducing unemployment. Even before the recent economic recession, the spectre of rising unemployment was common to the western industrialized world. Its intensity, however, may be unique to Canada. Historically Canada has had one of the highest rates of growth when compared to its major trading partners. Real growth (Gross National Expenditure) for the period 1973 to 1980 averaged 3.3 per cent and was exceeded only by Japan (Table 3).

5.2 Canada has historically performed less well with respect to employment than it has with respect to economic growth as such. In the 1973 - 1980 period when its rate of economic growth matched that of Japan, Canada experienced an average rate of unemployment that exceeded that of all western industrialized nations (Table 3). In the 1981 - 1984 period Canada's average unemployment rate was exceeded only by that of the United Kingdom.

5.3 But data on economic growth as such obscures Canada's problems with both productivity and unemployment. The relatively strong rates of growth in Canada's gross national expenditure throughout the 1970s resulted in part from rapid population and labour force growth. When measured on a per capita basis

Table 3

REAL AND FORECAST RATES OF
GROWTH (GROSS NATIONAL EXPENDITURES)
AND UNEMPLOYMENT INTERNATIONAL COMPARISONS

	Real GDP/GNE (Per Cent Change)		Unemployment	
	1973 - 1980 (average)	1981 - 1984 (average)	1973 - 1980 (average)	1981 - 1984 (average)
Canada	3.3	1.2	7.0	10.5
U.S.	2.8	2.8	6.4	8.6
U.K.	1.7	2.2	5.0	11.0
Germany	2.7	1.0	2.9	7.0
France	3.2	1.4	4.5	8.2
Italy	3.3	0.5	6.6	9.4
Japan	4.4	4.3	1.9	2.5

Sources: OECD, Quarterly National Accounts, 1985.1 (Paris: 1985), and Canada, Department of Finance, Canada's Economic Prospects, 1985 - 1990 (May 1985), Table 1.

Canada's economic productivity started to decrease between 1976 and 1981 when it declined to one of the lower per capita growth rates (Table 4).

5.4 It is becoming evident that the most serious problems in the Canadian economy are related to weaknesses in the manufacturing, primary, and construction industries. Together these three industries accounted for a loss of 409,000 jobs in Canada between August 1981 and September 1985 (Table 5). In 1985 the Social Planning Council reported that from December 1981 to December

Table 4

CHANGE IN PER CAPITA GROSS DOMESTIC PRODUCT,
SELECTED YEARS, 1967 - 1981
(Constant Prices)

	1967 - 71	1971 - 76	1976 - 80
Canada	15.4	18.4	8.0
U.S.A.	6.5	11.5	12.9
Japan	38.7	18.4	20.1
Australia	15.7	9.6	9.4
France	21.1	17.6	11.8
West Germany	15.3[1]	12.5	17.5
Sweden	3.5[2]	12.8	3.3
U.K.	10.0	11.6	4.5

1. 1968 - 1971.
2. 1969 - 1971.

Sources: OECD, Demographic Trends, 1950 - 1990 (Paris: 1979); United Nations, Demographic Year Book, 1979 (New York: 1979); and OECD, Quarterly National Accounts (Paris: 1967 - 1981).

1984 the loss of manufacturing jobs was 7.5 per cent for the Toronto CMA, 1.8 per cent for Ontario and 8.0 per cent for Canada.[22] In more recent years the Toronto experience with respect to manufacturing has mirrored that of the nation.

5.5 The second element of recent change in the Toronto job structure is the abrupt decline of employment in the government and public

22. Social Planning Council of Metropolitan Toronto, The Deindustrialization of Metropolitan Toronto: A Study of Plant Closures, Layoffs and Unemployment (Toronto: 1985), p.11.

Table 5

EMPLOYMENT BY INDUSTRY, AUGUST 1981 TO SEPTEMBER 1985

	Thousands Employed			Per Cent Change		
	Aug. 1981	Dec. 1982	Sept. 1985	Aug. 1981 - Dec. 1982	Dec. 1982 - Sept. 1985	Aug. 1981 - Sept. 1985
All Industries	10,912	9,824	10,945	(10.0)	11.4	0.3
Primary (excl. Agriculture)	362	240	308	(33.7)	28.3	(14.9)
Manufacturing	2,235	1,786	2,001	(20.1)	12.0	(10.5)
Construction	757	529	636	(30.1)	20.2	(16.0)
Transport, Communication and Utilities	938	873	914	(6.9)	4.7	(2.6)
Trade	1,932	1,835	1,984	(5.0)	8.1	2.7
Finance, Insurance and Real Estate	614	562	640	(8.5)	13.9	4.2
Community, Business and Personal Services	3,244	3,260	3,659	0.5	12.2	12.8
Public Administration	831	740	802	(11.0)	8.4	(3.5)

Source: Statistics Canada, The Labour Force (Catalogue 71-001, monthly, various months).

administration sector. After three decades of growth that averaged about 90 per cent over each decade, employment growth in this sector declined to 18 per cent in the decade 1971 - 1980.[23] Public administration employment declined by 0.6 per cent between 1980 and 1984.[24] The loss of employment-generating potential here has been related to public policies favouring cutbacks in

23. Op. cit.
24. Statistics Canada, The Labour Force (Special Tabulations). We are grateful to the City of Toronto Planning and Development Department for making these data available.

government spending on health, education and welfare. And these declines in employment growth have occurred at a time when there are significant unmet needs for social services, housing, public transportation and other public goods and services.

5.6 Another element of recent change in the Toronto job structure is the very rapid growth of jobs in the services sector, especially personal services. This sector grew by 77 per cent in the period 1971 to 1980. Strong growth rates were experienced in the distributive services sector (transportation and communication) and the producer services sector (services to business) as well. The disturbing aspect of this transformation is not the shift to service employment per se. But the wages paid and hours worked in jobs in these sectors are on the average lower than jobs in the sectors suffering from growth slowdowns - manufacturing, and government services. An estimate of wage levels in these various industries shows that over 70 per cent of employment growth between 1971 and 1980 took place in industries with low wages.[25]

5.7 The quality of job growth is also undermined by the rapid and disproportionate growth of part-time employment. In 1976, 12.1 per cent of all jobs in Ontario were part-time jobs while 18.8 per cent of new job growth that year was in part-time jobs. By 1984, 16.7 per cent of all jobs were part-time jobs (Table 6).

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25. Loren Simerl and Howard Goldfinger, Job Growth by Industry in the Toronto Area (Toronto: Social Planning Council, Working Papers for Full Employment, March 1982), p.113.

Table 6

PART-TIME EMPLOYMENT AS
A PER CENT OF TOTAL EMPLOYMENT
1976 - 1984

	Canada	Ontario
1976	11.0	12.1
1977	11.7	12.8
1978	12.1	13.1
1979	12.5	13.8
1980	13.0	14.0
1981	13.5	14.5
1982	16.1	17.3
1983	16.9	17.4
1984	16.3	16.7

Source: Statistics Canada, The Labour Force, Cat. 71-001, Various Years.

5.8 The number of people who want full time jobs but can only find part-time jobs is also growing in both Canada and Ontario. In 1975 there were 38,000 part-time workers in Ontario who were working part-time because they could only find part-time work; this represented 8.8 per cent of all part-time workers in the province. By September 1985 the number of part-time workers restricted to part-time work, but wanting full time work, jumped to 133,000 and this group now makes up 19.3 per cent of all part-time workers (Table 7). This growth of underemployment reflects a continued erosion of the quality of jobs and numbers of hours of work available to Canadian workers.

Table 7

PART-TIME WORKERS WHO ARE WORKING PART-TIME BECAUSE THEY CAN ONLY FIND PART-TIME WORK, CANADA, ONTARIO 1975 - 1985

	CANADA		ONTARIO	
	#	As a per cent of all Part-time Workers	#	As a per cent of all Part-time Workers
1975	105,000	11.0	38,000	8.8
1976	126,000	14.3	44,000	9.9
1977	162,000	14.3	63,000	13.2
1978	198,000	16.4	75,000	14.9
1979	223,000	17.1	88,000	15.9
1980	245,000	17.7	96,000	16.8
1981	267,000	18.1	98,000	16.2
1982	390,000	23.6	136,000	19.9
1983	444,000	24.7	129,000	17.8
1984	485,000	27.1	152,000	21.2
1985 (Sept.)	465,000	25.9	133,000	19.3

Source: Statistics Canada, The Labour Force, Cat. 71-001, Various Years.

Problems in the Manufacturing Sector

5.9 The pattern of decline in employment in the manufacturing sector is not new for Canada. Canada has always had a weak manufacturing base that has been dominated by foreign control and ownership. This dependence has been encouraged by public policy and has, during periods of growth, had some beneficial effects. But

such a dependence can also have a devastating impact, especially in a period of economic decline. Canada's gross capital formation - investment that potentially contributes to economic growth - has been on a par with other countries; but that portion invested in machinery and equipment, mainly for manufacturing production, has been consistently much lower than most of our major trading partners since 1971. In 1984 only 37.4 per cent of gross capital formation in Canada went towards machinery and equipment, compared to 47.5 per cent in the U.S.A, 50.3 per cent for Australia, 47.3 per cent for the U.K. and 51.9 per cent for France.[26] This lack of capital investment in new productive technology reduces the level of productivity of Canadian industry in a period when re-industrialization and technological innovation is essential to allow Canadian industry to compete effectively and to generate much needed jobs.

5.10 Canada's economic problems are also illustrated by our international balance of payments position. From 1974 through 1981 Canada experienced a large and repeated deficit on the current account of its balance of payments, and the current account deficit stood at $6.1 billion in 1981.[27] Canada imports approximately 25 per cent of all our manufactured goods, a very high ratio compared to most other industrialized nations. This manufacturing trade imbalance signals a profound weakness in Canadian economic potential. While Canada's balance of payment

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26. Organization for Economic Cooperation and Development, Quarterly National Accounts (Paris: 1985.1), Table 5a.
27. Canada, Bank of Canada Review (periodic), Table J-2.

position improved considerably from 1981 to 1984, this has been primarily due to the automotive sector. In 1981 Canada's net deficit in auto trade was $2.2 billion. By 1984 there was a surplus on auto trade of $3.7 billion. The net deficit in trade of other manufactured goods was $7.3 billion in 1981, and it was $7.1 billion in 1984.[28]

5.11 Clearly, a major cause of unemployment and of recent loss in employment is Canada's weak (and weakening) manufacturing sector. Any efforts to reduce unemployment will have to address this problem. Yet the federal government does not seem to be moving to correct this fundamental weakness in the Canadian economy. And subsequent to the September 1985 report of the Royal Commission on the Economic Union and Development Prospects for Canada the only new development appears to be an even deeper commitment to negotiating a free trade agreement with the U.S.A. There are no proposals for addressing the problems presented by ineffective management of capital and a branch plant economy.

Government Spending Restraint and Unemployment

5.12 Federal policies are currently influenced by so-called supply side and monetarist economic theories. These theories say that the problem both of deficiencies in investment and of high inflation are related to excessive government spending, over-burdened taxpayers and a large public debt. Following from the logic of

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28. Ibid, Tables J-7 and 8.

the theory, governments need to reduce spending and the public debt and reduce taxes so that people can save and, with these savings, invest in the economy.

5.13 But the other, often ignored, effect of government spending restraint at both the federal and provincial level is on the level of employment. Employment growth in the 1950s and 1960s was dominated by public sector expansion. This was one of the ways Canada achieved relatively low levels of unemployment during that period.[29] This expansion was an essential response to a society requiring the provision of public services. Government cutbacks at all levels since the mid 1970s have seriously eroded an important source of new employment in the Canadian economy. There remain numerous public services that are in demand and social needs that go unmet. There is a need for an expansion of public initiatives in housing, day care, public transportation and other goods and services that can best be provided by government.

5.14 Federal and provincial governments have also reduced their commitments to the use of direct job creation despite the continued need to provide jobs for hard to employ groups and

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29. Hugh Armstrong, "Unemployment: An Historical Perspective", in Social Planning Council of Metropolitan Toronto, Social Questions for Public Policy (Toronto: 1979), pp. 57 - 58.

despite evidence that direct job creation is a cost effective method of expanding employment opportunities.[30]

Government Revenue Restraint

5.15 The pursuit of government expenditure restraint, largely at the expense of the poor and low income segments of society, has been accompanied by government revenue restraint, also largely at the expense of the poor and those with lower incomes. Effective corporate tax rates declined during the 1970s from 38 to 29 per cent, creating a loss of government revenue of a magnitude of $4 billion.[31] Throughout the 1970s the use of tax expenditures (provisions in the tax system equivalent to spending programs) increased so that by 1979 the Minister of Finance estimated that the effective loss of government revenue from tax expenditures

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30. Canada Employment and Immigration Commission, Labour Market Development in the 1980s (1981), p.138. The Task Force concluded that, "In evaluating the cost of public sector job creation as compared to stimulating private or public expenditure, we have used OECD data and a study by Robert Haveman (1980) as well as our own estimates. All these confirm the lower cost of public sector job creation. The average person-year cost of job creation is approximately $8,000 by OECD estimates, $6,000 to $10,000 by Haveman and $7,500 by Task Force estimates. These may be compared to the average person-year cost of about $20,000 by OECD estimates for jobs created visa general tax cuts or public expenditure increases, up to the $30,000 we have estimated through quotas and other forms of trade restrictions. In addition, direct job creation permits more effective targeting."
31. Social Planning Council of Metropolitan Toronto, Directions for Social and Economic Development, (Toronto: 1981), p.16.

stood at $32 billion.[32] The November 1981 budget estimated that 29,000 tax filers with yearly incomes of over $100,000 in 1979 received an average benefit of over $46,000 in reduced federal tax.

5.16 The large federal budgetary deficit is considered to be the main impediment to increased government spending for capital investment and for social development spending and direct job creation. The federal budgetary deficit mushroomed in the 1981/82 fiscal year from less than $10 to almost $30 billion as the recent recession caused revenues to decline and expenditures for such items as unemployment insurance benefits and welfare payments to increase. For the 1985/86 fiscal year the budgetary deficit of the federal government is projected to be $33.8 billion.[33] This sudden mushrooming of the federal deficit is caused by the decline in revenues stemmed from decline of production, employment and income as a result of the recession, as well as government's policies of revenue restraint. It is cause for concern; but it is also the direct result of the aforementioned weaknesses in the Canadian economy.

5.17 Large ongoing government deficits - what are termed "structural" deficits - are the result of the loss of tax revenue and the unwillingness of government to tax in order to pay for committed

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32. Canada Department of Finance, Analysis of Federal Tax Expenditures for Individuals (Ottawa, November 1981), p.11.
33. Canada, Department of Finance, The Fiscal Plan (Ottawa: May 1985), p.6.

and needed programs. The structural deficit for 1984 reached $20.8 billion.[34]

The immediate limits to spending in Canada are the willingness of governments to make commitments to implement tax reform so that revenues generated through taxation are sufficient and equitable.[35] Thus, for instance, the creation of a larger federal deficit for the purposes of direct job creation is not a problem; the problem is the method of generating the cash to do so.

5.18 We stress the need to generate additional revenue equitably. The federal budget of May 1985 contained in it a fiscal plan for reducing the federal deficit by over $20 billion, thus eliminating the structural component of the total budgetary deficit, by the 1990/91 fiscal year. However, it proposes to accomplish this objective at the expense of low and moderate income families. From 1980 to 1985 the Social Planning Council

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34. Although we have used Department of Finance data with respect to disaggregating the total government deficit into its cyclical and structural components, and we have not been able to adequately explore these data and their basis, there is some question in the academic literature as to the accuracy and adequacy of these data. Neil Bruce and Douglas D. Purvis, "Fiscal Policy and Recovery from the Great Recession," in Canadian Public Policy (March 1983), for instance, examined the 1982 consolidated deficit, then projected to be $19.9 billion (5.6 per cent of GNP), and concluded that the total consolidated balance was actually running at a $7.8 billion surplus adjusted for inflation and the business cycle. The cyclical component is very sensitive to the assumed full employment rate.

35. David Wolfe, "The Politics of the Deficit," in G. Bruce Doern, ed., The Politics of Economic Policy (Toronto: University of Toronto Press, forthcoming 1986); and Ernie Lightman, Canada's Tax System and the Poor (Ottawa: National Anti-Poverty Organization, 1984).

estimates that the net tax liability of a two parent-two child family with gross income approximating what we consider to be a minimally acceptable level experienced an increase in net tax liability of over 68 per cent.[36] A similar family with three times that level of income experienced a net change in tax liability of 20 per cent less, or 48 per cent. The May 1985 Budget proposes to add to these inequities. We estimate that the real income of the low income family will decline by 5.2 per cent by 1990, while the income of the upper income family will decline by 4.4 per cent. These projections do not include any allowance for the $500,000 in life-time capital gains provisions that were also included in the May 1985 Budget. The proposed minimum tax will do little to alter these inequitable results.

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36. Social Planning Council of Metropolitan Toronto, "A Review of Federal Tax Changes Since 1980 by Level of Income," Social Infopac, 4.4 (November 1985)

VI. THE REPORT OF THE ROYAL COMMISSION ON THE ECONOMIC UNION AND DEVELOPMENT PROSPECTS FOR CANADA

6.1 The Report of the Royal Commission is the latest in a series of reports proposing major changes in Canada's approach to labour market policy and in its unemployment insurance program. Previous reports include that of the Canada Employment and Immigration Commission's Task Force on Labour Market Development, its Task force on Unemployment Insurance and the Parliamentary Task Force on Employment Opportunities, Work for Tomorrow, all three published in 1981. The Royal Commission Report represents the further development of the ideas and thoughts contained in the earlier reports. It also represents at least a slight modification of the conservative view that structural problems within labour markets and the generosity of Canada's unemployment insurance program are solely responsible for Canada's very high unemployment rates. It asserts that these structural problems make it difficult to reduce the unemployment rate to less than the 6.5 to 8.0 per cent range. Unemployment in excess of this rate is said to be caused by demand deficiency, or too few jobs.

6.2 The Report of the Royal Commission recommends that the federal government consider the following package of changes in the unemployment insurance program:

- Experience rating, which establishes premium rates that are proportional to the risk of unemployment, and calculated on a firm-by-firm basis;

- A reduction of the benefit rate to 50 per cent of insurable earnings;
- An increase of the entrance requirement to 15 - 20 weeks of insured work over the previous year;
- Tightening of the link between the maximum benefit period and the minimum employment period; and
- Elimination of the extended benefit period based on regional unemployment rates.

The Commission estimates that these changes would have saved at least $4 billion at April 1985 rates of unemployment, or about one-third of total benefits paid at this rate of unemployment. It would use this savings to finance the Transitional Allowances Assistance Program.[37]

6.3 The debate over labour market policy and the role of the unemployment insurance program must be situated within the context of the larger debate around the effectiveness of macro-economic policy within the past decade. The major concern over the unemployment insurance program has been its effects on levels of unemployment. The incidence of higher unemployment since the mid-1970s has engendered considerable debate over the relative contribution made by a variety of factors, such as internal economic conditions, demand management policies, structural changes in the economy, demographic factors influencing the rate of growth of the labour force and changes in labour market

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37. Op. cit., Vol. 2, p.815.

policies, such as the unemployment insurance program, with its resultant influence on the behaviour of individuals in the labour market.

6.4 Commencing with the work of the Economic Council of Canada in the mid-1970s, a growing body of academic literature began to suggest that two prime factors in the higher levels of unemployment were the demographic factors and the influence of unemployment insurance benefits on job search behaviour. By the early 1980s, much of this work had become part of the accepted wisdom and was summarized in the report on Unemployment Insurance in the 1980s. It argued that higher participation rates by youth and women, as well as differences in the behavioural aspects of their attachment to the labour force, were important non-cyclical variables in the increased rate of unemployment. An even more important factor singled out by the Task Force Report was the broad coverage, ease of qualification and overly generous levels of benefits paid by the reformed Unemployment Insurance program. The report cited academic evidence suggesting that the 1971 reforms to the program constituted a disincentive to work which had contributed between 0.5 per cent and 1.3 per cent to the rise in unemployment.

6.5 In our critique of the Task Force report, the S.P.C. maintained in 1982 that it had overlooked other evidence which indicated that the job attachment behaviour of young people and women was not as different from that of other demographic groups as it

suggested.[38] We further argued that the Report did not take into account the academic controversy surrounding the validity of the findings cited above and that it had failed to note that other academic studies concluded that the 1971 reforms had little or no effect on levels of unemployment experienced later in the decade. Our critique also pointed out that even if the findings were accepted as valid, they were based on data for the period preceding 1975 and did not measure the effects of the extensive revisions to the system between 1976 and 1979. These later revisions considerably tightened the eligibility criteria for U.I. as well as reduced benefits. Finally, we noted that the Report did not adequately appreciate the contribution made by U.I. payments to sustaining aggregate demand in periods of slack economic growth. On the basis of this evidence we concluded that the Report vastly overemphasized the impact of the Unemployment Insurance program on unemployment, and underemphasized its contribution to macroeconomic stabilization.

6.6 More recently, the evidence on these questions presented by the Royal Commission report has generated further debate about the interrelationship among these critical factors. The Royal Commission accepted the view that the increased unemployment experienced in Canada in the 1970s could be accounted for, in part, by the growth of the working-age population, rising work-force participation rates, particularly by women, and increases

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38. Social Planning Council of Metropolitan Toronto, A Job For Everyone: A Response to 'Un'Employment Policies in Canada (Toronto: 1982), pp.57 - 66.

in frictional unemployment stimulated by social legislation, such as amendments to the Unemployment Insurance Act. The Royal Commission estimates that the increase in labour force participation rates of women and young people contributed 0.3 per cent to the unemployment rate over the course of the decade. It further notes that these higher participation rates among demographic groups with less work force experience and skills in lower demand contributed a further one per cent of unemployment during the decade of the 1970s. Finally, the Report notes that changes to the Unemployment Insurance program during the 1970s contributed between 1 and 2 per cent to unemployment rates by increasing employee turnover and the duration of unemployed job search.[39]

6.7 While these findings by the Macdonald Royal Commission do not fully support the earlier position adopted by the Social Planning Council, it is important to note the Commission's conclusion that these factors were operative only up to 1979. Since that time, the potential impact of each of the factors cited above on the current rate of unemployment has either been reversed or neutralized. The Commission notes that the rapid growth of the labour force that occurred during the 1970s has declined, and it forecasts a further decline during the course of the eighties. Although women's participation rates have continued to grow, they have done so less quickly than previously and the number of young people entering the labour market in the current decade constitutes a much smaller cohort than the baby boom generation

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39. Op. cit., Vol. 2, pp.594, 595.

of the past decade. Similarly, the extensive changes to the Unemployment Insurance Act, culminating in the 1979 reforms have eliminated the effects of unemployment insurance on the unemployment rate. In summary, the various factors that contributed to the rise in the non-cyclical component of the unemployment rate over the 1970s should now be causing it to decline.[40] Furthermore, the Commission concluded that "although its role in automatic stabilization has been reduced in recent years ... unemployment insurance probably stopped unemployment from reaching an even more dramatic level in the recent severe recession."[41]

6.8 Thus, even if one were to completely accept the arguments advanced concerning the impact of demographic changes and reforms to the unemployment insurance program on unemployment in the 1970s, this evidence indicates that the non-cyclical component of unemployment has declined steadily since the beginning of the current decade. This is true in spite of the fact that unemployment rose dramatically from 7.4 per cent in 1979 to a peak of 11.9 per cent in 1983. The overwhelming conclusion to be drawn from this evidence is that cyclical (i.e., demand related factors - including macroeconomic policy) have been the most important determinant of increased unemployment in the current decade; furthermore, on balance, both the labour market supply-side and the macroeconomic demand-side effects of the

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40. Ibid, pp.595, 596.
41. Ibid, p.610.

unemployment insurance program have likely alleviated a further deterioration of Canada's unemployment rate.

6.9 In light of this simple and obvious conclusion, we are confounded by the ultimate recommendations of the Macdonald Royal Commission in favour of a further tightening of both the administrative criteria and benefit levels of the unemployment insurance program and would strongly urge this Task Force to treat those recommendations with extreme caution. Although the Royal Commission noted that demographic and unemployment insurance related factors were likely contributing to a decline in the non-cyclical component of the unemployment rate, it advocated a further tightening of the program. In support of this recommendation, it cited several Canadian studies on the effects of the 1979 revisions on the duration of unemployed job search and the ratio of employed to unemployed job search. It argues that a further tightening of the program will result in an improvement in the incentive structures and adjustment mechanisms of our national labour market.

6.10 We find both of these conclusions totally unacceptable. To reiterate our previous positions. The evidence adduced during the course of the 1970s on the effects of demographic changes and unemployment insurance changes on the unemployment rate is highly controversial. However, even were we to acknowledge the validity of these findings, it is clear that their effects have been reversed since 1979. To argue in favour of further restrictions on the benefits of unemployment insurance is, therefore, to adopt

a view of social legislation which sees it as a punitive device designed to reinforce the tyranny of the market over individual behaviour. In effect, the recommendations of the Royal Commission constitute a rejection of the principles which have guided the development of Canadian social policy since World War II and a return to those which held sway in the nineteenth century.

6.11 To its credit, the Macdonald Royal Commission did recognize the necessary link between unemployment and poverty. Its recommendations for a tightening of the unemployment insurance program were made in the context of two additional proposals - one that the savings realized from these changes to unemployment insurance be directed to a Transitional Adjustment Assistance Program to assist the mobility of labour from sectors and regions of the economy experiencing high unemployment to those with a greater demand for labour; the second, for a Universal Income Security Program that would provide a minimum level of income for all Canadians. The Social Planning Council of Metropolitan Toronto has serious reservations about the adequacy and efficacy of both these proposals. However, this is not the proper forum to explore those concerns. The significant point for this task force to note is the potential social harm that would result from a further tightening of the eligibility criteria or reduction of the benefit levels of the existing unemployment insurance program, without a radical transformation of the existing income security system. In our minds, such a retrenchment would create a crisis of poverty and hunger of truly national proportions.

6.12 We do not believe that the Commissioners were sufficiently appreciative of the impact of the major cutbacks that have already been initiated administratively and legislatively in the 1976 to 1979 period (Table 8). The Commission expresses the view that the generosity of the Canadian unemployment insurance program, especially since the reforms were implemented in 1971 has artificially stimulated the statistical rate of unemployment. We think that changes made in the current program beginning in 1976 do not justify such a view. By the early 1980s the proportion of total weeks of unemployment for which the unemployed were compensated was already less than it was prior to the implementation of the 1971 reforms. While average benefit levels were significantly higher than prior to the reforms, they still averaged 15 per cent less than Statistics Canada's poverty line income for one person in Metropolitan Toronto.

6.13 Policies to improve the functioning of labour markets can be useful to both the unemployed and to the economy, but they should not be substituted for a vigorous strategy of job expansion.

Table 8

SELECTED UNEMPLOYMENT INSURANCE DATA
1970 - 1984

	Person Years of Unemployment (000's)	Regular Benefits Paid ($000)	Regular Benefits Paid/ Person Years of Unemployment ($)	In 1981 Constant $	Index (1972 = 100)
1970	495	695,222	1,404.49	3,422.2	0.48
1971	552	890,594	1,613.39	3,822.1	0.54
1972	562	1,764,040	3,138.86	7,101.5	1.00
1973	520	1,850,928	3,559.48	7,477.9	1.05
1974	521	1,924,543	3,693.94	6,995.1	0.98
1975	697	2,907,716	4,171.76	7,131.2	1.00
1976	736	3,019,686	4,102.83	6,522.8	0.92
1977	850	3,435,080	4,100.09	6,038.4	0.85
1978	911	4,006,868	4,398.32	5,951.7	0.84
1979	838	3,431,216	4,094.53	5,450.2	0.77
1980	867	3,748,551	4,323.59	4,863.4	0.68
1981	898	4,115,888	4,583.39	4,583.4	0.64
1982	1,314	7,646,023	5,818.89	5,251.7	0.74
1983	1,448	9,069,503	6,263.47	5,344.2	0.75
1984	1,399	8,825,126	6,308.17	5,157.9	0.73

	Person Years of U.I. Benefits Paid	Per Cent of Total Weeks of Unemployment	Average Weekly Earnings	Average Weekly U.I. Benefits	Benefits/ Average Earnings
1970	381.1	77.0			
1971	435.3	77.8			
1972	N.A.	N.A.	149.22	61.79	41.4
1973	N.A.	N.A.	160.46	68.51	42.7
1974	496.2	95.2	178.09	74.94	42.1
1975	660.0	94.7	203.34	84.78	41.7
1976	621.7	84.5	228.03	92.96	40.8
1977	661.0	77.8	249.95	101.01	40.4
1978	703.4	77.2	265.37	109.70	41.3
1979	613.1	73.2	288.25	108.57	37.7
1980	601.2	69.3	317.38	120.94	38.1
1981	612.9	68.2	355.12	130.25	36.7
1982	1,018.4	77.5	390.79	144.38	36.9
1983	1,126.3	77.8	390.51[1]	154.84	39.6
1984	1,050.4	75.1	405.13[1]	161.57	39.9

1. The survey of average earnings was altered in 1983 so that data are no longer comparable with previous years.

Source: Canadian Statistical Review, Table 4.7, various years.

VII. CONCLUSIONS

7.1 We cannot accept proposals for further reducing the benefits paid under the unemployment insurance program. Changes made in the 1976 to 1979 period have reduced benefits by about 25 per cent of what they were in the early 1970s immediately following the 1971 reforms. A further reduction of one-third which is proposed by the Royal Commission on the Economic Union and Development Prospects for Canada, would reduce the overall program to the same magnitude that existed prior to the 1971 changes. While average benefit levels would remain above their pre-reform level, a smaller proportion of the unemployed would receive benefits than did prior to the changes.

7.2 The administration of unemployment insurance has been arbitrary, punitive and a breach of the principles of social insurance. Throughout the 1970s the administrative policies of the Unemployment Insurance Commission were specifically designed to reduce the number of people on claim.[42] The discretionary powers of program managers have been focussed on requiring regular interviews and stricter job search requirements for perceived high risk groups such as claimants in "demand" occupations, single males aged 15 - 24, all married females, and ethnic claimants. Such practices are totally unacceptable and, where they remain in operation, they are unjustified.

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42. Victor Schwartzman, "How Dark is it in the Bowels of the Beast? Life Inside Unemployment Insurance," This Magazine, 15.2 (May/June 1981), pp.4 - 7.

7.3 The Unemployment Insurance Commission continues in its refusal to provide a clear statement of the rights that claimants have with respect to job search. The result is that claimants continue to be subjected to arbitrary disentitlement even though they may be actively searching for a job.[43] The problem of arbitrary and punitive administrative procedures is one that is confusing to many of the unemployed who see unemployment insurance as a right to which they are entitled because of their contributions while working. These problems were not addressed, yet they remain a pervasive problem for the unemployed.

7.4 The Social Planning Council of Metropolitan Toronto opposed changes to the Unemployment Insurance Act in 1978.[44] These changes occurred despite considerable opposition among groups representing the people most affected. They represented a significant reduction of the income security offered to the unemployed in Canada. The changes that were proposed at that time were based on the same assumptions as the current proposals. They are even more inappropriate and punitive now. There are problems in the unemployment insurance program. These have to do with the discretionary nature of its the administration and with inequities in the financing of the unemployment insurance fund. We support the proposal to introduce the element of insurance rating in assessing employers for unemployment insurance

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43. Rueben Hasson, The Cruel War, Social Security Abuse in Canada, mimeo, p.18.
44. Social Planning Council of Metropolitan Toronto, The Problem is Jobs Not People (1978).

premiums. The problem of administrative discretion was not addressed by the Royal Commission. The result may be a further and significant erosion of an important source of income support for people who become unemployed.

7.5 The general thrust with respect to unemployment insurance of the Report of the Royal Commission should be rejected. The Social Planning Council of Metropolitan Toronto has argued in the past and continues to believe that unemployment insurance is an important program contributing to the income continuity and well being of unemployed Canadians. Any further erosion would seriously undermine its income security goals. The discontinuity in family income that would be occasioned by reducing individual benefits even further or by reducing benefits where other family members are still employed would create additional family hardships. The problem is jobs, not people, and the focus of public policy should be on improving the employment prospects for the unemployed and on expanding job opportunities.

7.6 While the recommendation of the Royal Commission with respect to a guaranteed annual income is deserving of considered attention, we do not think that the proposal will ultimately win the acceptance of the Canadian public and its federal and provincial legislators. Nor would it be universal. A higher guarantee level would be required for the elderly to ensure that they would not lose benefits which they enjoy under the current system. Provincial governments would be required to maintain their current social assistance plans for welfare recipients, and they would

take on added burdens as unemployment rates increased and more and more individuals turned to welfare as their now fewer unemployment insurance entitlements expired. It is the federal government with greater economic power and resources at its disposal which should take this risk.

7.7 We endorse the concept of an income security system that is more sensitive to the needs of dependents of the unemployed and of low and moderate wage earners. However, there is considerable merit in returning to the income security proposals contained in the reconstruction plans for the period immediately following World War II. Those proposals envisaged a generous unemployment insurance program resembling that which was ultimately implemented in 1971 and children's allowances approximately 2.3 times those which were ultimately implemented in 1944. We think that the needs of children, as well as the fact that a very large proportion of the increasing numbers of persons with incomes below the official poverty level in the 1980s are children, deserves immediate public policy attention.

Labour Market Policy Directions

7.8 There is little doubt about the need for a revised system of skill training in Canada. But the problem of skill training has been overstated and its effectiveness as a solution to the overall problem of unemployment will be minimal. The skill

training system has been used as a scapegoat for deficient and ineffective federal economic and labour market policies.

7.9 There is a need to place emphasis on technical and technological training to meet future skill requirements. But this emphasis should not be made at the expense of occupations that have less of an apparent demand at this time. There continues to be a need for training at the post secondary level in social services, social science and the arts. Government cutbacks have restricted the employment potential of these occupations but this does not mean there is less of a need for them.

7.10 Skill training programs in Canada have not been entirely successful. Most training has been institutional rather than on-the-job training and this has served better to keep the unemployed occupied than as part of a rational and integrated plan for skill training and job placement. On-the-job training has often been used as a wage subsidy program by employers. The results have been a minimal form of training that is of little benefit to the employee or society. Industry has been negligent in the provision of its own skill training programs. Only 20 per cent of major industries have established skill training or apprenticeship programs.[45] Employers have, for the most part, relied on importing skilled workers from abroad where on-the-job training and apprenticeship programs have a long history and are much more effective. The National Training Act will not

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45. Canada, Hansard (June 14, 1982).

significantly alter this system. It will not require employers to bear financial responsibility for the training that will benefit them. The Minister of Employment and Immigration has thus far not developed the necessary response to the problem of skill training in Canada, a grant/levy training system.

7.11 In our brief to the Parliamentary Task Force on Employment Opportunities in 1981 we argued that a grant/levy system is essential to the development of an effective long range skill training program in Canada.[46] This would involve a levy on all industry to pay for training, and grants to those employers who engage in active and effective training programs. It would also include contributions from government to the grant program in recognition of the general societal benefits of skill training improvements. Our proposal included linking this program to the unemployment insurance program or to a severance pay plan so that layoff time training could be an integral component of the revised skill training program. Such a program would also have specific targets or goals for training women, minorities and the disabled in occupations from which they have been historically excluded.

7.12 No skill training program can be effective without long term labour force planning and this can only be achieved through long term economic planning. Full employment is an essential framework for this effort. Until it is, skill training programs are

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46. Social Planning Council of Metropolitan Toronto, Brief to the Parliamentary Task Force on Employment Opportunities for the 80's (January, 1981).

likely to remain patchwork responses to an uncertain job market. The National Training Act has not altered this fundamental problem.

Labour Market Inequality

7.13 The Canadian labour market is characterized by a high degree of segmentation and inequality.[47] Women earn on average 60 per cent of what men earn. Racial and ethnic minorities in Toronto are concentrated in low paying occupations and there is a considerable amount of discrimination against these groups.[48] Young people and the disabled face similar barriers in the job market. The Macdonald Royal Commission identified the need to improve employment opportunities for women, natives and ethnic and visible racial minorities, but it chose to recommend no specific actions in this regard with respect to the private sector. The commitment of the federal government to this goal does not appear strong. The achievement of greater equality for women, minorities and the disabled in employment will require a comprehensive labour market strategy that is the responsibility of both the federal and provincial governments. This would include, in addition to training programs, mandatory affirmative action programs and legislation requiring equal pay for work of equal value.

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47. Social Planning Council of Metropolitan Toronto, Poverty and the Labour Market (Op.cit.)
48. Jeffrey Reitz, et. al. Ethnic Inequality and Segregation in Jobs (Toronto: Centre for Urban and Community Studies, University of Toronto, 1981); and Social Planning Council of Metropolitan Toronto, "Racial and Ethnic Discrimination in Employment", Working Papers for Full Employment #5 (Toronto, 1982).

Layoffs and Plant Closures

7.14 The current labour market strategy of the federal government is also deficient in its approach to the problem of layoffs and plant closures. Plant closures and layoffs are symptomatic of economic decline. The loss of jobs through a plant closure or a layoff undermines any effort to create jobs. There is a need to develop programs to prevent the loss of jobs by establishing job retention as a policy priority.

7.15 The Social Planning Council published a comprehensive study of the layoff and plant closure problem in 1985.[49] We found that many employers that close down plants or lay off workers do so for sound economic reasons. But there is also evidence that many plant closures occur for less than adequate reasons; and there is evidence that the practices of employers with respect to labour force planning to maximize employment are less than laudable. Many plant closures are not justifiable from an economic perspective. They are the product of head office decisions of multi-national corporations that are either out of touch with their branch plant operation, or are more concerned about maximizing returns elsewhere. Hence, we find the curious phenomenon of profitable plants being closed down. Plant closures are known to have devastating social and economic impacts upon the communities in which they occur. Nor are these costs fully borne by the corporation undertaking the shutdown. The high social costs of plant closures suggest the need for some

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49. The Deindustrialization of Metropolitan Toronto (op.cit.).

form of public audit of the decision of employers to lay off workers. Society's right to have some control over decisions than can negatively affect it implies that a public body should have the right to prevent a closure where it is not deemed justified.

7.16 There is also evidence that layoffs, both temporary and permanent, are often the product of poor labour force planning practices. Firing workers is often the quickest and easiest method of reducing costs. The Federal Commission of Inquiry into Redundancies and Layoffs concluded that many layoffs could be avoided if employers actively engaged in labour force planning, such as restricted hiring activity, restricted overtime, early retirement, normal attrition, work load scheduling and other planning efforts that balance the needs of employers to keep costs down with the needs of workers for jobs.[50]

7.17 Primary responsibility for legislation pertaining to layoffs rests with provincial governments. The Social Planning Council of Metropolitan Toronto outlined a comprehensive policy for layoffs and plant closures in our brief to the Ontario Select Committee on Plant Closures and Employee Adjustment.[51] This proposed comprehensive policy has the following goals:

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50. Labour Canada, Report of the Commission of Inquiry into Redundancies and Layoffs (Ottawa 1981), p.233.
51. Social Planning Council of Metropolitan Toronto, Brief to the Select Committee on Plant Closures and Employee Adjustment (1981).

a) to prevent the occurrence of layoffs wherever possible;

b) to provide effective adjustment assistance to workers and communities where layoffs do occur; and

c) to assure that the social costs of layoffs are included in the total cost of labour to the employer.

The policy would include:

- a requirement for employers to submit their decision to lay off or close a plant to a "public audit" in order to prove that the closure or layoff is justified;
- improved advance notice requirements as an incentive to engage in labour force planning;
- mandatory severance pay as compensation for the loss of a major asset - a person's job;
- improved benefit protection so that the pensions and other benefits of laid-off workers are protected and portable; and
- the requirement that an employer develop a "social plan" for the adjustment of the workforce through the re-location or retraining of workers where layoffs are unavoidable.

Unemployment Insurance and Government

7.18 One outcome of the 1971 unemployment insurance reforms was the assumption by government of all costs of unemployment insurance benefits whenever unemployment exceeded four per cent of the labour force, then judged to be the "frictional" or measured rate of unemployment at full employment. It was argued at the time that this method of financing both acted as an automatic stabilizer and made high unemployment painful enough for the federal treasury that the government would be more likely to use fiscal and monetary policy to keep unemployment to a minimum. Then the current financing plan under which the federal government assumes 20 per cent of the cost of unemployment insurance, the proportion of unemployment that is assumed to result from regional disparities, was developed, the balance being funded jointly by employers and employees. The Social Planning Council endorses the original principles underlying the financing of unemployment insurance. The federal government should assume responsibility for the financing of unemployment insurance whenever the unemployment rate exceeds whatever measured level of unemployment is determined to indicate full employment.

7.19 It follows from our other remarks with respect to a labour force strategy that the unemployment insurance program should be integrated with job creation programs and training and skill training programs. The unemployment insurance program should also be used to mitigate any job displacement effect attending technological innovation.